



DRAFT RATES STRATEGY 2018-19



HRCC Rates Strategy 2018-19

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1 EXECUTIVE SUMMARY

The Local Government Act 1989 does not require Council to develop a Rating Strategy; however it has been strongly encouraged for Council to implement a Strategy and make it available to the public through the budget process.

The State Government in 2016-17 introduced the “Fair Go Rates System” that places a cap on rates for all 79 Council’s across the state. The cap for 2018-19 was set by the Minister at a maximum increase of 2.25% unless a variation was applied for to the Essential Services Commission. Council did not apply for a variation for 2018-19. Council did apply for a variation in 2016-17 and was successful in obtaining an additional 1% increase to continue its program of infrastructure renewal. Council has however still continued to set aside 1% of rate income to fund additional infrastructure renewal but has done this within the 2.25% rate cap, by making savings and efficiencies in operations.

This Rates Strategy balances the need to fund the various Council services available to ratepayers with the need to consider equity in the levying of rates and services provided. To this end rates are levied based on property capital improved values, with consideration of a differential for the farming sector, a flat municipal charge, and user charges for garbage services. User fees are charged where a service provides a specific benefit to a group or particular individuals, as opposed to “public goods”, these being services providing a broad benefit to the community. In the case of public goods it is often difficult or impractical to exclude non-payers from the benefits or to attribute costs.

During 2013-14 Council undertook a significant review of this Rates Strategy. It considered all aspects of the current rating strategy to ask the question as to whether the current policy in place is still appropriate in terms of the key equity and efficiency principles. Council also called for submissions from the public and submissions received through the process were considered in the drafting of the final strategy.

Council has again considered each of the policy positions within the Rates Strategy, during the 2018-19 budget development process. In doing so it believes that the current strategy provides a fair and equitable approach to the distribution of the rate burden within the community.

Council continues to fully understand the need to maintain stability in the rate burden and that equity principles are always considered.

2 SUMMARY OF CHANGES TO STRATEGY IN 2018-19

The Rates Strategy has remained unchanged for 2018-19. The following issues were discussed at more length with the following decisions:

1) Municipal Charge

Council will increase the municipal charge from \$281 to \$287 for the 2018-19 year. This is a 2.14% increase which is in close alignment with the capped rate rise of 2.25%. (see sections 3.3 & 4.6).

2) Differential Rates – Farm Sector

Council proposes to continue with a differential for the farm sector in recognition of the changes to relative property values, the high value of land as an input to farm operations, and in recognition of some lesser access to services associated with the rural isolation of the majority of the farming sector.

Council will maintain the farm differential at 80% of the General Rate but will review this in detail later in 2018 for the 2019-20 Budget Planning cycle.

3 LEGISLATIVE FRAMEWORK

3.1 Rating Objectives set out in Legislation

Council Objectives in the Local Government Act 1989 (The Act) Section 3C (2) (f) require the “equitable imposition of rates and charges”.

Section 136 (2) (b) requires Council to pursue spending and rating policies that are consistent with a “reasonable degree of stability in the level of rates burden”. (See Appendix 1)

3.2 Property Rates and Local Government

Current Victorian legislation originates from the *English Ratings Act*, including the *Poor Relief Act 1601*, the *Poor Rate Act 1801* and the *Rating and Valuation Act 1925*. It is the accepted philosophy that “property” benefits in a particular way from the services provided by local government, and therefore “property” should contribute to the cost of local government. From a tax system perspective, it is very practicable as the rate payer does not have to keep records or lodge a return.

3.3 Available Rating Options

3.3.1 General Rate (or Ad valorem rate)

A general (or Ad valorem) rate is struck based on cents in the dollar of each property’s valuation. Under Section 157 of The Act Council can use one of three valuation methods, capital improved value (CIV), net annual value (NAV) or site value (SV). Valuations occurring up to January 2018 were undertaken on a two year basis, with supplementary valuations able to be done where there are sales in subdivisions and consolidations, as well as following the construction and demolition of buildings.

Changes were made to the Valuation of Land Act during 2017 that from 2019 it will be compulsory for Council’s valuations to be undertaken through the Valuer General’s Office and that valuations will be undertaken on an annual basis.

3.3.2 Differential Rates

Section 161A of The Act allows Council to strike a different rate in the dollar for separate property classes, if Council uses CIV as the system of valuation. Section 161 (2) states that Council must specify the characteristics of the land which are the criteria for declaring a differential rate and the objectives of the differential rate. These objectives must include: a definition of the types and classes, a statement of the reasons for the level of the rate and the identification of the types or classes of land.

Section 161 (5) of The Act states the highest differential rate must be no more than 4 times the lowest differential rate.

Under Section 161 (2A) Council must have regard to any Ministerial Guidelines made before declaring a differential rate. The Minister issued Guidelines in April 2013. These guidelines attempt to spell out clearly what types and classes of land may be considered for differentials and also those that are not appropriate for differentials or need to be “carefully considered”. Geographic Location may also be considered as a basis for the use of a differential. The guidelines summarize the following types and classes of land that may be considered for a differential:

“Must give consideration” to reducing the rate burden through a reduced differential rate

- Farm land
- Retirement villages

“Appropriate” for differential rates

- General land

- Residential land
- Farm land
- Commercial land
- Industrial land
- Retirement villages
- Vacant land
- Derelict land
- Cultural & recreational

“Carefully considered” as to whether they are appropriate for a differential rate

- Holiday Rental
- Extractive
- Landfill
- Dryland farming
- Irrigation farm land
- Automobile manufacturing land
- Petroleum Production
- Aluminium Production

“Would not be appropriate” to declare a differential

- Electronic gaming venue
- Liquor licensed venues
- Business premises defined by hours of trade
- Fast food franchises

3.3.3 Municipal Charges

Under Section 159 of the Act Council may issue a flat rate Municipal charge “to cover some of the administrative costs of Council”. The total revenues raised from a Municipal Charge cannot be more than 20% of the total raised from the combination of municipal charge and general rates, and there are also provisions which allow exemptions for farmland making up single farm enterprises. The Local Government Act defines a “single farm enterprise” as being 2 or more rateable properties which are farmland and are farmed as a single enterprise and occupied by the same person or persons, whether or not they are contiguous.

Alternatively, a “single farm enterprise” can be 2 or more properties if all except one are farmland that is farmed as a single enterprise occupied by the same person or persons and one which is contiguous with at least one of the other properties is the principal place of that person or one of those persons.

The Act provides for a person to apply for exemption on such land providing it is not claimed for at least one other rateable property in that enterprise and, where a farm enterprise is occupied by more than one person, an exemption is not claimed for more than one principal place of residence.

Using criteria applied since 1996 in accordance with the above, separate properties making up a single farm enterprise, with or without one principal place of residence, pay one charge only and for every additional principal place of residence within that farming enterprise another charge is made.

3.3.4 Service Rates and Service Charges

Section 162 of The Act allows Council to set a service rate or charge across a broad range of Council services. In determining if services should be funded by specific charges or through rates, Council has to consider the aspect of whether services are either entirely or partially “public goods”, these being services providing a broad benefit to the community rather than a particular benefit to individuals or groups. In the case of public goods it is often difficult or impractical to exclude non-payers from the benefits or to attribute costs.

Where possible, Council sets user charges based on the cost of provision of those services where there is clearly a direct benefit to users, such as the garbage collection service, in which the revenue from the charges for household garbage services and others are set to meet the total cost of all waste services, including collection, treatment and disposal.

At the same time small scale services or those where it would be difficult to attribute costs or collect fees are funded through rates.

3.3.5 Special Rates and Charges

A Special Rate or Charge may be applied under Section 163 of The Act. Council may declare a special rate if Council considers that a specific project “is or will be of special benefit to the persons required to pay the special rate”. This section of the Act has been the subject of many challenges as to what is a “special benefit”. A 1999 VCAT ruling said “if a benefit accrues to the land so as to make it more desirable and therefore more valuable for sale, the owner derives a special benefit even if his or her present use of the land does not provide it there and then”.

3.3.6 Other Rating System Considerations

- Payment options – use of a variety of payment options can be considered but quarterly options must be offered
- Incentives can be offered for prompt or early payment
- Rebates and concessions can be offered under Section 169
- Waivers and deferrals can be granted under Section 171
- Interest is charged on late payments under Section 172
- Council debt collection policies
- The ability to sell properties to recover unpaid rates under Section 181

3.4 Accepted Rating Principles

A Rating Strategy must allow Council to carry out its functions efficiently, simply and transparently with Council striking a balance between the following competing objectives. How we balance between these conflicting goals is largely a political decision and needs to take into account the views and opinions of the community.

As rates are based on property values it is essentially a wealth based tax. There is a direct relationship between property holdings and disadvantage – less wealthy people tend to own lower valued housing stock. Property owners with higher valued assets generally have a greater capacity to pay.

3.4.1 Equity

Issues of equity are judgemental in nature and are complex and subjective. There are a number of key aspects of equity that need to be considered:

Horizontal equity - ratepayers in similar situations should pay similar amounts.

Vertical equity – the view that those better off should pay more than those worse off.

However, these can conflict with the next two equity principles, the benefit or “user pays” principle and that of capacity to pay.

Benefit principle points to the fact that some groups may have more access to Council services.

Capacity to pay principle is that some will have a greater or lesser capacity to pay the assessed rates, particularly as property value is unrealized wealth and a ratepayer may be asset rich and cash poor.

3.4.2 Simplicity

All reviews of taxation have argued that simplicity is a critical goal. Certainly the simpler the rating system is the easier it is for ratepayers to understand, although the simplicity goal can often conflict with other goals.

3.4.3 Efficiency and Effectiveness

Efficiency can be defined as the ratio of ends produced (outputs) to means used (inputs). Being more efficient, means that the burden on ratepayers can be reduced or ratepayer's utility can be increased by limited resources being diverted to more productive areas. Effectiveness is measured in the ability of Councils to achieve specific objectives. For services where users are price sensitive, direct charging can influence demand patterns and thus lead to greater allocative efficiency.

4 HISTORICAL ANALYSIS

In 2005 Council developed a Rating Strategy, which was adopted in conjunction with the adoption of the 2005-06 Budget. Council has annually reviewed this strategy as part of its budget process, but in 2013-14 as a response to budget submissions received, it undertook to do a more detailed review of its entire Rating Strategy in order to investigate the concerns raised by some sectors within the community. Further to this the Victorian Auditor General's Report into the results from the 2012-13 audits highlighted the need for Council's to "apply a robust and strategic approach to the collection and use of revenue through rates and charges" and to improve the quality of the Rates Strategy and to implement a rating policy.

Council during the 2013-14 review looked in depth at the various elements of its current rating package, the objective being to consider ways in which these could be varied to "more equitably and efficiently distribute the rates burden in the municipality".

In determining if services should be funded by specific charges or through rates, Council has to consider the aspect of whether services are either entirely or partially "public goods", these being services providing a broad benefit to the community rather than a particular benefit to individuals or groups. In the case of public goods it is often difficult or impractical to exclude non-payers from the benefits or to attribute costs.

Where possible, Council sets user charges based on the cost of provision of those services where there is clearly a direct benefit to users, such as the garbage collection service, in which the revenue from the charges for household garbage services are set to meet the total cost of all waste services, including collection, treatment and disposal (but excluding Council overheads).

At the same time small scale services or those where it would be difficult to attribute costs or collect fees are funded through rates.

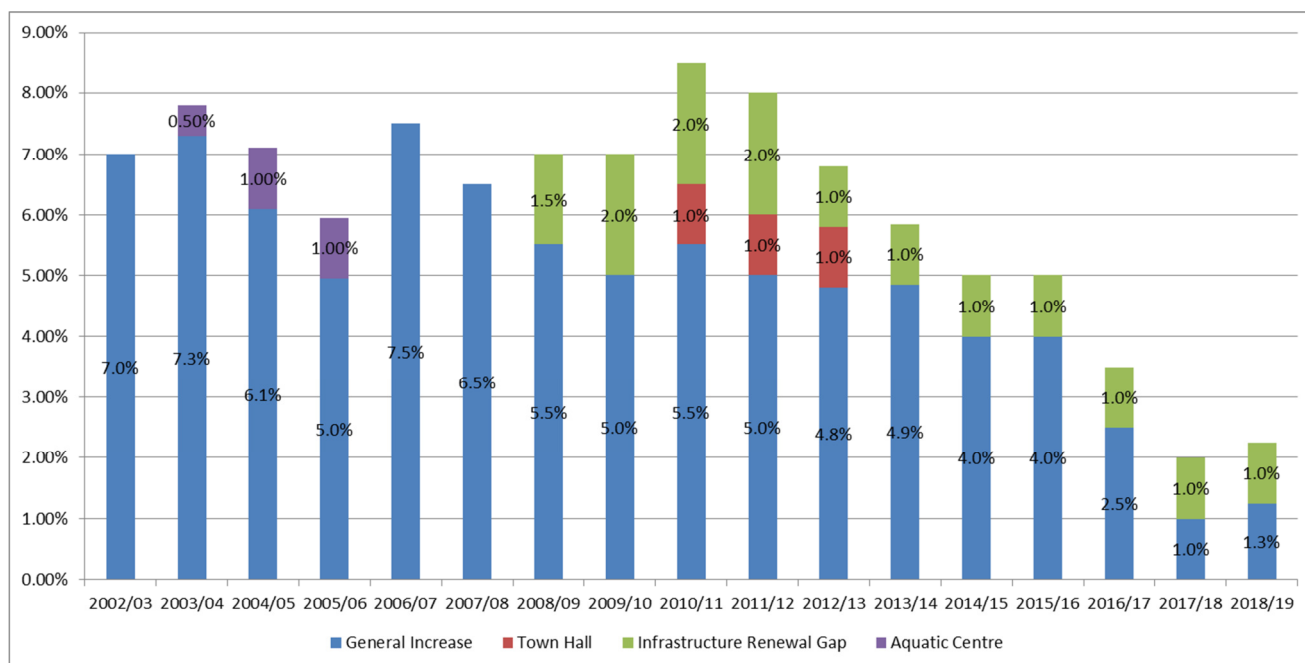
The system currently in use in Horsham Rural City Council consists of the following:

- Differential Rates based on Capital Improved Valuations multiplied by specified rates in the dollar, being General (Residential, Commercial & Industrial) and Farm rates.
- A flat Municipal Charge levied on all rateable properties, with exemptions for properties making up single farm enterprises and cultural and recreational lands.
- Cultural and Recreational Rates levied on recreational land based on Capital Improved Valuations at concessional rates in the dollar.
- Rate exempt status for specified charitable and other properties, both as required by legislation and under Council discretion.
- Garbage Service charges based on the type and size of the services provided, with a discretionary service for those outside the residential urban areas of Horsham and Natimuk, including the provision of a free-to-user recycling service for residential garbage service recipients.
- Deferments and/or waivers of rates and charges in specific hardship cases.
- Rebates and Concessions are offered in some circumstances as set out in legislation such as for the State funded Pensioner Rebate Scheme but also as per Council policy and other agreements.

4.1 Council Rate Changes

Council in 2018-19 is expected to raise 44.5% of its total revenue from rates. In 2003-04 the percentage was 36.5%. Individual years in between may have varied slightly due to specific non-recurrent grants which may distort this measure.

Council Rate increases since 2002-03 are shown in the following graph:



4.2 Valuations

Council currently chooses to rate properties based on the Capital Improved Value (CIV) method, on the basis that this more accurately reflects the true value of the property, and also under the Act it allows Council to be able to apply differential rates when they believe they are applicable. Council undertakes its valuations over a two year cycle in accordance with the Valuation of Land Act 1960 and has appointed the Valuer General as the Valuation Authority who in turn employs an independent contract Valuer.

The last revaluation was undertaken effective January 2018, and in future will occur each year rather than every second year, following legislative changes introduced in to parliament in 2017.

Analysing property valuation changes is complex as individual properties will change differently within a sector and the overall valuations are influenced by development within individual sectors also. That said, the change between property values at the 2018 valuations versus the 2016 Valuations are shown in the following table:

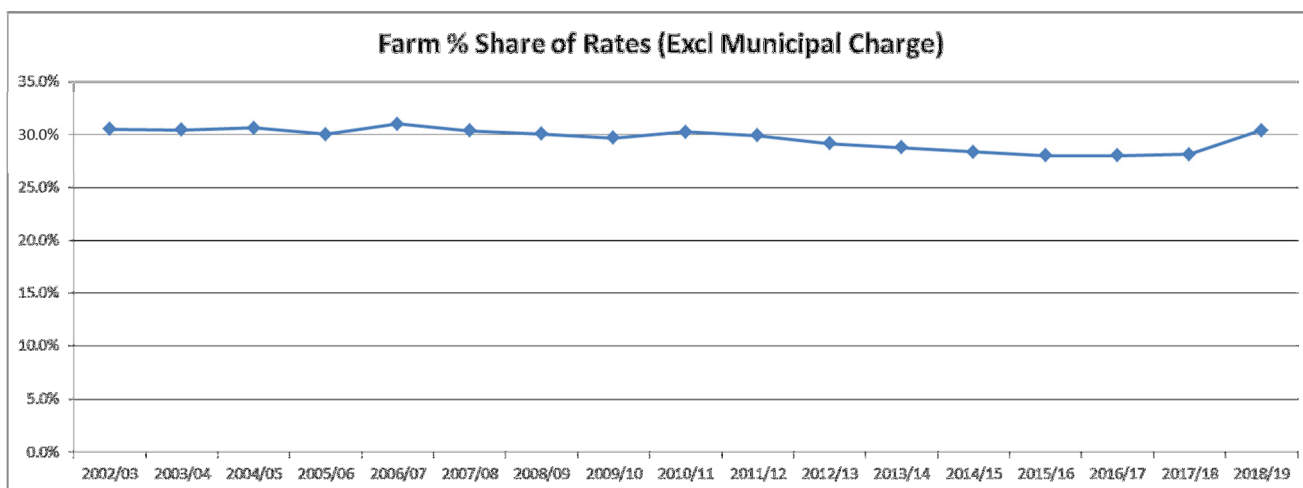
Suburb	Assess	2016 Valuations Budget 2017-18	2018 Valuations Budget 2018-19	Average % Valuation Increase / (Decrease)
01 Residential	9,186	2,265,659,000	2,361,734,500	4.24%
05 Commercial	524	293,645,000	328,949,500	12.02%
06 Industrial	418	156,201,000	167,600,500	7.30%
General Sector	10,128	2,715,505,000	2,858,284,500	5.26%
02 Farm	2,159	1,333,034,000	1,562,389,000	17.21%
03 Cult/Rec/Other	66	25,528,000	25,308,000	-0.86%
Overall	12,353	4,074,067,000	4,445,981,500	9.13%

The impact of the 2018 Revaluations were considered by Council when reviewing the farm differential for 2018-19. It is intended to review the farm differential further when looking at the Rates Strategy in time for the 2019-20 Budget cycle and as part of the Council Planning processes later in 2018.

During the period since 2002-03 there have been some years where the relative valuations have varied significantly between the farm sector and the general sector. In 2012 the General Sector rose on average by 7.6% whilst the Farm Sector only rose on average by 3.9%.

There are also often large variations between revaluation years and these are expected to be reduced due to revaluations occurring on an annual basis rather than every second year.

The valuation increase for the Farm Sector shows there has been significant growth in wealth (in terms of property values) for this sector relative to the general sector, however it also means that the Farm sector has increasingly had to shoulder a higher portion of the rate burden.



New property assessments and additional value has been created by way of new sub-divisions and constructions in the General Sector specifically but to a lesser extent in the Farm Sector as well. These new properties have helped contribute to rate revenue in total and have thus reduced the rate burden for all categories of properties.

4.3 The Municipal Charge

The municipal charge cannot be more than 20% of the total rates charged, Council’s 2018-19 charge of \$287.00 will raise 13.6% of this total.

The municipal charge is intended to cover some of the “administrative costs” of a Council, examples of which are elections, governance, valuations and corporate expenses. The present level in Horsham is the result of applying the charge of \$95.00 set at the time of municipal restructure in 1995 until 1997-98, after which changes in the amount of the charge have followed the annual rate percentage increases declared by Council, except for 2014-15 and 2015-16 when there was no increase to the municipal charge. Council determined in 2016-17 to again increase the charge in-line with the overall rate increase and this approach has been maintained.

For 2018-19 Council will also increase the Municipal Charge by 2.14% which is slightly below the 2.25% Rate Cap due to rounding to the nearest dollar.

4.4 Use of Differentials

Until the year 2000, Council levied a uniform rate in the dollar on all properties, whether they are residential, commercial, industrial or farm. It then resolved that the equity of the rating system would be enhanced if the different characteristics of the farming sector were recognized by applying a differential rate at 95% of the general rate applied to all other non-concessional rateable properties.

Taking the above into account the farm rate was determined in the year 2000 after noting the relative changes in valuations between the farming and residential sectors in particular following the 2000 revaluation, and the lower accessibility of the farming sector to some of the services provided in the municipality generally. In doing so Council was mindful that a concession granted to one sector has to be paid for by all others but it believes that the equity principle is furthered by the application of this differential.

In 2010-11, Council further reduced its differential rate to benefit the farming sector from 95% to 90% (of the general rate) having considered the outcomes of its biennial revaluation, the impact of low commodity prices on farming incomes and uncertainty about the continuation of the Exceptional Circumstances financial support (which was subsequently withdrawn). In doing so, it considered the issue of geographical distance from standard Council services and the ability of farmers to use and access those services.

In 2014-15, Council reduced its differential by a further 10% to 80% of the general rate, in recognition of the changes to relative property values, the high value of land as an input to farm operations, and in recognition of some lesser access to services associated with the rural isolation of the majority of the farming sector.

The farm differential has remained unchanged in the subsequent years since 2014-15.

4.5 Concessions and Rebates

The most important rate concession available to ratepayers is the Municipal Rates Pension Concession set at a maximum of half the rates and charges levied on eligible pensioners. This is fully funded by the State Government. Eligible pensioners will also be entitled to receive a concession on their Fire Services Property Levy. The total concession amounts for 16-17 were \$268.30. The 2017-18 concession amounts have not been released to date.

There are currently no known Councils that offer a rate rebate for Health Care Cards, and Council has decided not to offer any further rate concessions. No additional rebate is offered to pensioners as Council is mindful that a concession given to one sector has to be paid for by another.

Other concessions are given to the Office of Housing (Department of Human Services) 50% of their total general rates (excluding the Municipal charge) on the low value rental units, for disadvantaged sectors of the community. Council provides rebates for properties which are involved in Sport, Cultural & Recreational activities under the Culture and Recreational Rates Concession policy which was adopted with the 2015-16 Council Budget.

4.6 Payment of Rates

Rates may be paid by quarterly instalment or as a yearly lump sum payment in February. The Council also widely publicises the opportunity it allows for paying rates by arrangement throughout the year as it can be managed and encourages ratepayers who may be having difficulty to discuss payment arrangements with rates staff. Council considered moving to quarterly only payment options for the 2013-14 year and again in 2017-18, but elected to continue to offer a lump sum option in February, in consideration of the benefits specifically to the farm sector.

In accordance with the Local Government Act 1989, Council must, as far as practicable, levy all general rates, municipal charges, service rates and service charges which are declared in a financial year in the same financial year. Council have made a determination not to claim back rates on a property.

4.7 Garbage and Recycling Services

Council provides for the collection and disposal of household garbage, as well as providing for the depositing of industrial and other waste to landfill. A 240 litre bin service has been in existence since before municipal restructure, with weekly collection using bins supplied by the Council to householders in the urban area, and to commercial and industrial premises on request. The service is mandatory for all residential tenements in the urban areas of Horsham and Natimuk.

From the year 2000 Council has offered a residential 240 litre bin service to rural properties where this is feasible, as well as to residential properties in rural townships. The service is optional and the charge the same as in urban areas, although the provision cost is substantially greater due to the increased travelling involved in collection. However, Council's view is that rural dwellers should not be financially penalized to provide the service and that cross subsidization is justified in this case.

In 2001 Council extended the garbage service by providing an optional 120 litre service at a reduced charge, with the two-fold purpose of leading to a reduction of garbage going to landfill and to encourage recycling. Again some cross subsidization occurs as the collection costs are not substantially less for the small bins, but Council believes the strategy outlined justifies this.

Council resolved in 2002 to add a recycling bin service for residential users using distinctively coloured wheeled bins. Recycling bins are provided only on request. Not all rural users have been offered the service as it is not practical at this stage. The cost of the residential recycling service is included in the overall garbage charge and in 2018-19 this has increased by approximately \$30 due to national issues with recycling and contamination issues for the market of recyclable products in to China. Relevant state bodies are working with industry to look at alternative markets and products to keep these costs down in the future.

At the request of the occupiers of some commercial premises the Council agreed in 2008 to provide a recycling service. This chargeable service will be restricted to occupiers not using the Council's commercial garbage service, for which the recycling service is at no additional cost.

5 RATING PRINCIPLES AND COUNCIL POLICY

5.1 HORIZONTAL EQUITY

Principle: Council considers issues of horizontal equity when developing its rating strategy

Rationale: To ensure that people in similar economic circumstances are treated similarly

Issues:

- Levels of Government with more diverse taxing and investigative powers and resources struggle to achieve this and use a broad range of taxing instruments from income and assets tests, consumption versus income taxation etc. It is difficult to expect a property tax system alone to deal practically with this issue.

Council Policy

Position: Council will consider (where possible) issues of horizontal equity in its rating strategy.

5.2 VERTICAL EQUITY

Principle: Council considers issues of vertical equity when developing its rating strategy

Rationale: The amount of tax to be paid varies in accordance with an individual's economic circumstances.

Issues:

- Economic circumstances can be very subjective, depending upon how we define and measure this. Similar circumstances may be judged differently based on wealth, income and expenditure.
- Information around individual economic circumstances is not freely available to Council

Council Policy

Position: Council will consider (where possible) issues of vertical equity in its rating strategy.

5.3 USER PAYS PRINCIPLE

Principle: Council considers the “benefit” or “user pays” principle

Rationale: The benefit principle points to the fact that some groups may have more access to Council services.

Issues:

- More use of user charges, special rates and service charges lend themselves better to dealing with the issue of benefit.
- Another issue to consider here is that of the degree of “public” good in a service. A public good is something where it is difficult or impractical to exclude non-payers from the benefit. A user charge can be used where the benefit of a particular service can be mapped to an individual ratepayer.
- A comprehensive analysis of access to services is extremely costly, complex and difficult to determine with many subjective judgement calls to be made. In some ways arguing of the benefit principle with respect to Council rates is like trying to do the same for income tax that is used to fund a wide range of universally accessed services. It might be argued that a country ratepayer derives less benefit from library services or street lighting than their town counterparts but the reverse may be argued with respect to the cost of repairing rural roads that are seldom travelled on by the urban ratepayer.
- Many services are not location specific.
- Access is not synonymous with consumption.
- Residents can travel or use technology to access services.
- Services provided in different locations within the municipality have different costs e.g. waste collection in rural areas may be more costly than in urban areas etc.

- Rates are a property wealth tax based on valuation of properties and not based upon access to services.
- Services are available on a “whole of life” basis i.e. different services are accessed at different points during a person’s life.

Council Policy

Position: Council will consider user pays opportunities where-ever practicable.

5.4 CAPACITY TO PAY

Principle: Council considers issues of capacity to pay when developing its rating strategy

Rationale: Some groups may have a greater or lesser capacity to pay i.e. asset rich but income poor

Issues:

- Council does not have access to income information for ratepayers. This would be necessary to assess this aspect of rating equity; however individuals may apply on hardship grounds to have their rates deferred or interest waived and in doing so need to provide Council with some of this information

Council Policy

Position: Council will consider (where possible) issues of capacity to pay in its rating strategy.

5.5 RATE EXEMPTIONS FOR CHARITABLE AND OTHER PROPERTIES

Principle: Rate exempt status for specified charitable and other properties, both as required by legislation and under Council discretion.

Rationale: The Local Government Act provides for limited exemption of certain categories of properties from rating, Section 154 sets out what land is non-rateable. Primarily those regarded as being used for charitable purposes, as well as specified types of property, such as those used for mining. Most Government and Council owned properties, including educational institutions and hospitals, are also included in non-rated categories.

Issues:

- Some degree of discretion needs to be applied when looking at some charities as they may often be almost commercial in nature.
- A detailed review of non-rateable assessments is undertaken on a regular basis.

Council Policy

Position: Council provides exemptions in accordance with Section 154 of the Local Government Act. Additional to this Council applies a policy (See Section 5.21) to refund rates payable by charities which are conducting revenue raising activities involving second hand retail shops (These facilities are specifically excluded from exemption under Section 154 (4)(c)). Council has made a submission to the State Government’s review of the Local Government Act seeking to have the exemption granted to the mining industry removed. The removal of this exemption has been included in the initial bill that was circulated to the community in early 2018. The final outcome of this will not be known until later in 2018 when and if the new Local Government Act passes in to legislation.

5.6 FLAT MUNICIPAL CHARGE

Principle: A flat Municipal Charge may be levied.

Rationale: A fixed component of the rating structure is provided as recognition of the fact that all rateable properties have an obligation to contribute to the basic operations of Council i.e. its Administrative functions

Issues:

- The higher the municipal charge the more regressive the tax i.e. benefits higher valued properties

- The higher the municipal charge the greater is the benefit to farms with multiple assessments that are eligible for the “single farm enterprise” exemption.
- A municipal charge may be used by a council to collect a portion of revenue not linked to property value but paid equally by all ratepayers
- The charge cannot be more than 20% of total rates
- Because the municipal charge is a fixed charge, it is regressive, meaning that as the value of properties decrease, the municipal charge increases as a percentage of rates paid, thus the total burden is reduced on higher value properties.
 - A reduction in the level of the municipal charge would benefit lower valued properties, but any reduction would need to be balanced by an increase in the ad-valorem rate accordingly which would increase the rates on all properties across all sectors.
 - Some Councils tie the municipal charge to specific administrative or governance costs and set it accordingly.
 - Council has considered the effect of lowering the level of the charge and consequently raising the ad-valorem rate to compensate.

Council Policy

Position: On the grounds of equity and transparency the Council has considered different levels of municipal charge and the effects on different classes of ratepayers and different valued properties. It has also looked at the great variation in municipal charges levied in neighbouring municipalities, some having no municipal charge at all. It has reviewed the level of administrative costs that this charge contributes towards and believes that the current rate does reflect a reasonable recovery of these fixed costs of Council, be it at the higher end of the scale across the state.

Council will increase the municipal charge from the current rate of \$281 for 2017-18 to \$287 for 2018-19, in accordance with the ad-valorem rate rise, as near as practicable to the nearest dollar.

5.7 CULTURAL AND RECREATIONAL EXEMPTIONS AND CONCESSIONS

Principle: Rates levied under the Cultural and Recreational Lands Act 1993 are levied at concessional rates of 0% and 50% of the general rate.

Rationale: Under the provisions of the Cultural and Recreational Lands Act 1963 most Councils levy rates on outdoor cultural and recreational facilities at concessional rates. These lands must be occupied by a body which exists for an outdoor recreational purpose and which applies its profits in promoting the furthering of this purpose. The lands must be owned by the body or owned by the Crown or Council to be eligible. Agricultural showgrounds are specifically included. Indoor bodies may be exempt as charities under Section 154 of the Local Government Act 1989, on the basis of providing a general community benefit.

Council during 2014-15 undertook a detailed review of culture and recreational assessments within the municipality and developed a policy to guide officers in applying the principles. This policy clearly defines eligibility criteria and reduces the previous 20% concessional rate to 0% i.e. no rates to be levied and the upper rate of 60% has been reduced to 50%. Council believes this recognises the role that Culture and Recreational groups play in the provision of services to the community. These groups do have access to some services in their own right but largely, themselves, are part of the cultural and recreational service provision within the community. This new policy reduces the rate burden on these groups within the community and attempts to clarify the grey areas in the decision process, to help provide consistency and fairness in the way in which Council approaches this matter.

Issues:

- The rates payable are to be determined by Councils according to the amount considered by them to be reasonable having regard to the services provided and the benefit to the community.

- Council sets rates which differentiate between those which have significant fund raising capacity and those which do not.
- The levels are discretionary and as a consequence have been reviewed so that the lower rate aligns with the full exemption that may be granted to groups under Section 154 of the Local Government Act.
- The upper rate has been reduced from 60% to 50% to provide some further concession to these groups in recognition of the general community benefit they provide.

Council Policy

Position: Rates are set at 50% (for those with significant revenue raising capacity) and 0% (for those with little revenue raising capacity) of the General rate. No municipal charge is made on these properties.

5.8 VALUATION METHOD

Principle: Rates are levied based on property Capital Improved Values (CIV)

Rationale: Recognises the impact of Capital improvements and hence is more progressive taxation.

Issues:

- Of the 79 Councils in the state 75 use CIV as the valuation method.
- Use of CIV allows the use of differential rates

Council Policy

Position: Council believes that using CIV values satisfies the equity principles and allows council to utilize differential rates within its strategy.

5.9 CLASSIFICATION OF FARMING ASSESSMENTS

Principle: Council uses the definition of “farm land” as set out in the Valuation of Land Act 1960

Rationale: Requirement is that land be not less than 2 hectares in area and be used primarily for grazing, dairying and other animal raising, horticulture, or the growing of crops of any kind and is used by a business with a significant commercial purpose or character, which seeks to make a profit from those activities. The classification is made by the Council Valuer during biennial revaluations.

Issues:

- Councils with a farm differential may introduce a policy whereby only farms that meet additional selection criteria are eligible for the farm rate differential.
- Council would need to consider minimum assessment size, how to take in to account single farm enterprises, how to take in to account leasing arrangements, provide a process for exceptions following written application from the ratepayer and any other factors that Council may wish to consider.
- Costs of administering such system would be high and therefore may only be justifiable were the differential to be significantly increased
- Council in 2015-16 undertook a significant review of all farm properties under 60 hectares to ensure that they were engaged in a business. 60 hectares was chosen as the lower limit due to it being the minimum lot subdivision allowable in the farm zone of Council’s planning scheme.

Council Policy

Position: Council believes that the current policy of linking the definition of Farm Land to what is contained in the Valuation of Land Act is consistent with other government policies and is easy and low cost to administer. Council requires further information to be provided regarding farm properties that are less than 60 hectares to confirm that they are in fact undertaking a farming enterprise.

5.10 SUPPLEMENTARY VALUATIONS

Principle: Supplementary valuations are completed during the year as required.

Rationale: The Valuation of Land Act allows for Councils to have its Valuer make regular inspections following sales in subdivisions and consolidations as well as following the construction and demolition of buildings so that the maximum financial benefit can be gained from development as it occurs in the municipality, while at the same time ensuring that rates are levied equitably and transparently on new and changed properties

Issues:

- there is some discretion as to what is an appropriate level of change in value upon which a supplementary valuation should be made.

Council Policy

Position: Council has the policy to undertake supplementary valuations on a regular basis throughout the year, where there is a significant change to the capital improvements or where there is a new assessment or property consolidation required. The additional revenue generated during the year assists in maintaining the rate in the dollar at the lowest level and is both transparent and satisfies the equity principles within the rating strategy.

5.11 DEFERMENTS DISCOUNTS AND/OR WAIVERS

Principle: Deferments, discounts and/or waivers of rates and charges are available in specific hardship cases

Rationale: Section 169, 170 & 171 of the Act allows for people in designated groups to access this i.e. pensioner rate discount or for individual cases of hardship

Issues:

- Council has traditionally not granted waivers or discounts
- Deferrals mean little lost revenue to Council and it picks up on the equity issue of capacity to pay, by delaying payment until assets are realised at a later date.

Council Policy

Position: Council has a separate and specific policy for the handling of hardship cases which allows deferment of all or part of rates for varying times depending on circumstances, interest may also be waived in hardship cases. Applicants are required to specify the hardship grounds, on consideration of which Council may grant a deferment, which would generally continue until circumstances change, the land is sold or the person dies, when the rates and interest deferred would be taken from the sale proceeds. Council has in the past only granted interest waivers for hardship.

Council administers the state government funded pensioner rebate scheme.

In 2017-18 Council looked at whether a concession or rebate could be granted for Health Care Card holders but have not elected to do this.

In relation to the Rating of Granny Flats, where a flat that is constructed on land on which there had previously been one dwelling only and where such flat is occupied by the elderly or disabled pensioner relatives of the occupier of the adjacent house, Council will waive the rates and charges over and above the pensioner concession granted, providing the pensioners make an application for such a waiver each year before rate payment is due.

5.12 REBATES AND CONCESSIONS

Principle: Rebates and Concessions may be offered for a number of reasons as defined in Section 169 of the Act.

Rationale: Primarily “to assist the proper development of the municipal district” or to assist the preservation and /or restoration of places “of historical or environmental interest”

Issues:

- Council may offer rebates and concessions as it deems appropriate, and as established through clear policy direction.
- Council provides for the state funded pensioner rebate scheme
- Other rate concession considered in the past were on land with Conservation Covenants issued by the Trust for Nature for landowners undertaking conservation of their land, which has been suggested by the Trust as being appropriate and desirable.
- An option for a rebate or concession to be offered for relevant landholders in return for weed management has been discussed. However the administrative burden for such a scheme would be significant and outweigh the benefits.
- A specific rebate has been granted under an historical agreement, to provide 50% general rate concession (excluding the Municipal charge) on the low value rental units owned by the Department of Human Services.

Council Policy

Position: Other concessional arrangements that are in place are covered off with specific contractual agreements.

Council determined in 1998 that no rate rebates or concessions would be granted to properties on which a conservation covenant has been executed. Such covenants would be incorporated into the attributes considered by the Valuer when determining the Capital Improved Value of the land.

5.13 DIFFERENTIAL FARM RATES

Principle: A differential may be offered for farming land

Rationale: A differential is considered appropriate for farm land under the Ministerial Guidelines for use of differentials, and it is a specific requirement of these Guidelines for Council to consider a reduced differential for this category of land use.

Issues:

- Whilst the Ministerial Guidelines say Council “must” consider farmland for a reduced differential, they also say that Dryland farming and Irrigation farm land needs to be “carefully considered” as to whether a differential is appropriate.
- Can be based on a reduced access to services compared to residential properties, and this reduced access is not reflected in the property values.
- In taking in to account the extent of usage of services or capacity to pay Council needs to satisfy itself that the situation is consistent across the majority of properties within a property class.
- The extent to which relative property values may have varied between sectors may also be considered as an aspect that has made the rates burden inequitable for this particular sector
- An excessive rate burden is applied on farmers due to their land holding having a significantly greater value than for other small businesses
 - A lower valuation base encourages land use consistent with farming activities and conservation of areas which are suited to agricultural pursuits.
- Agriculture producers are unable to pass on increases in costs to prices
- Farms are seen as more susceptible or fragile than other commercial or industrial operations

- Rates are an allowable deduction for tax purposes and often include the principle place of residence

Council Policy

Position: Council will continue with a differential for the farm sector in recognition of changes to relative property values, the high value of land as an input to farm operations, and in recognition of some lesser access to services associated with their rural isolation of the majority of the sector. The farm differential will remain at 80% of the General Rate, effective for 2018-19.

Council recognises the need to consider this matter in more detail later in 2018 for the 2019-20 planning cycle.

5.14 DIFFERENTIAL FOR RETIREMENT VILLAGES

Principle: A differential may be offered for Retirement Villages

Rationale: A differential is considered appropriate for Retirement Villages under the Ministerial Guidelines for use of differentials, and it is a specific requirement of these Guidelines for Council to consider a differential for this category of land use.

Issues:

- A lower differential for this class of properties may be considered appropriate, based on the reduced number of services accessed by residents of retirement villages.
- Savings in capital investment to council for roads, footpaths, drainage, street lighting, car parking and landscaping
- Council benefits from increased rate revenue because of the density of retirement village housing

Council Policy

Position: Council has reviewed the Retirement Villages within the Municipality and does not believe there is any basis on which to offer a differential. The average value of assessments within a Retirement Village is on the lower end of the scale and many of the services of Council are available to and utilised by tenants of Retirement Villages.

5.15 DIFFERENTIAL FOR OTHER CLASSES OF LAND USE

Principle: A differential may be offered for range of other classes of land use under the current Ministerial Guidelines (See section 3 “Legislative Framework” and Appendix 2)

Rationale: A differential may be offered under the Ministerial Guidelines.

Issues:

- A higher differential for other class of properties as defined in the Guidelines may be argued for a number of other policy reasons of Council.

Council Policy

Position: Council does not consider any other differential as appropriate for any of the other listed categories of land use within the Ministerial Guidelines.

5.16 DIFFERENTIAL FOR GEOGRAPHIC REASONS

Principle: A differential may be offered for definable Geographic areas

Rationale: A differential may be offered under the Ministerial Guidelines.

Issues:

- A lower differential for this class of properties may be considered appropriate based upon, the distance from Horsham and therefore the ability to access services.
- In practice this would be very difficult to measure as to where the line should be and how to administer.

- Council has attempted to undertake some modelling work on this aspect, but in doing so has identified many complicating factors that would make this concept difficult to implement in practice.
- In taking in to account the extent of usage of services Council needs to satisfy itself that the situation is consistent across the majority of properties within a property class.

Council Policy

Position: Whilst Council recognises the issue as being applicable to outer geographic areas of the Municipality the costs and inability to position and administer a suitable line on a map would outweigh the benefits of introducing such a differential.

5.17 GARBAGE & RECYCLING SERVICES – USER PAYS

Principle: Garbage Services are compulsory for Natimuk and Horsham and are charged on a user pays principle. Recycling Services are included as part of the Garbage Services.

Rationale: Appropriate to have a user charge as the service can be clearly tagged to those that use it. The calculation is done on a cost recovery basis. Recycling is included to encourage recycling which helps reduce landfill costs. To charge separately may result in some people cancelling the service.

Issues:

- The calculation of the garbage charge is on a cost recovery basis but does not currently pick up on a contribution towards Council’s general administration or overhead.
- During 2017-18 the acceptable levels of contaminants in recyclable product delivered to China was reduced thereby impacting the recycling market. This resulted in a cost increase to council of approximately \$30 per recycling service. Council has passed this charge on though the garbage charge to those properties receiving the service, and is intending to provide a one-off tip voucher to partially compensate for this cost.

Council Policy

Position: Council will continue to charge Garbage and Recycling Service combined and on a cost recovery basis, with the exclusion of Council overheads.

Council will charge any increases in recycling costs only to those properties that receive a recycling service.

Council will provide a one-off yearly tip voucher to properties that receive the a recycling service.

5.18 SPECIAL RATES AND CHARGES

Principle: Special rates and Charges may be utilised

Rationale: These have been utilised principally for drainage, footpaths and road schemes where the “benefit” to individual ratepayers can be clearly identified.

Issues:

- Greater use of Special Charges when there are clearly “special benefits” that can be identified would help address some of the Equity issues around the benefit principle.

Council Policy

Position: Council will continue to use special rates and charges wherever it believes these may be appropriate.

5.19 PAYMENT OPTIONS AND INTEREST CHARGES

Principle: Payment options – we must offer quarterly instalments but may also offer other options such as a lump sum payment

Rationale: Lump sum payment option has remained in February largely due to the preference by the farming community to pay annually at this time. Interest can be charged on overdue payments.

Issues:

- Farming has changed in recent years and farm incomes are now often spread differently across the year.
- Compulsory quarterly payments would offer opportunities for improved efficiencies in how the rates department operates and better debt management and cash-flow management for Council and potentially ratepayers alike.
- Quarterly payments have been modelled to show there would be minimal extra costs to annual payers and can still be paid in full at the time of the first instalment on 30 Sept.
- Council has a policy for the charging of interest on late payments in accordance with the Local Government Act provisions and in the interests of fairness and transparency.
- Council authorises a credit management company to take prompt action where payment is not made by due dates or where payment arrangements are not followed by ratepayers.

Council Policy

Position: Payment method, current offering: In person, BPay, PostBillPay, credit card. Others not currently offered: direct debit, online, smartphone App, etc. Council will look to expand the options available for payment as and when possible.

Council in 2017-18 reviewed the February lump sum payment option and considered the benefits of moving to quarterly only payments, but did not elect to make a change at this point in time. This has not been reviewed in 2018-19.

5.20 EARLY PAYMENT DISCOUNTS

Principle: Early payment discount may be offered if rates are paid early.

Rationale: Early payment benefits council by improvements to cashflow.

Issues:

- The question of a discount on early payment of rates has been looked at previously by Council. In a survey in 2003 few ratepayers indicated that they would be attracted by a discount.
- The discount may be seen to benefit ratepayers in the community with greater cashflow
- There is a cost to the discount itself, plus additional administrative and system costs.

Council Policy

Position: Council does not offer a discount for early payment.

5.21 RATING OF RETAIL PREMISES OF CHARITABLE ORGANISATIONS

Principle: The Local Government Act provides in Section 154 (4) that any part of land used for the retail sale of goods cannot be regarded as used exclusively for charitable purposes and is thus ratable.

Rationale: These are commercial operations that are not charitable by nature and hence they should be rated.

Issues:

- These retail premises operate in order to both raise income for their charitable cause and also to provide a cheap source of recycled clothing which provides a social benefit to the community..

Council Policy

Position: For the purpose of charging rates, the Council Valuer be asked to separately value that part of land not rated which is occupied by a charitable organisation and used for the retail sale of goods so as to allow that part to be separately rated.

Council will then make an annual Community Donation / Grant equivalent to the rates charged to the charitable organisations so rated in accordance with this policy.

Appendix 1

Extracts from the Local Government Act 1989

3C. Objectives of a Council

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- (1) The primary objective of a Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions.
- (2) In seeking to achieve its primary objective, a Council must have regard to the following facilitating objectives—
 - (a) to promote the social, economic and environmental viability and sustainability of the municipal district;
 - (b) to ensure that resources are used efficiently and effectively and services are provided in accordance with the Best Value Principles to best meet the needs of the local community;
 - (c) to improve the overall quality of life of people in the local community;
 - (d) to promote appropriate business and employment opportunities;
 - (e) to ensure that services and facilities provided by the Council are accessible and equitable;
 - (f) to ensure the equitable imposition of rates and charges;
 - (g) to ensure transparency and accountability in Council decision making.

136. Principles of sound financial management

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S. 71

- (1) A Council must implement the principles of sound financial management.
- (2) The principles of sound financial management are that a Council must—
 - (a) manage financial risks faced by the Council prudently, having regard to economic circumstances;
 - (b) pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden;
 - (c) ensure that decisions are made and actions are taken having regard to their financial effects on future generations;
 - (d) ensure full, accurate and timely disclosure of financial information relating to the Council.

Division 1—Declaration of Rates and Charges

154. What land is rateable?

- (1) Except as provided in this section, all land is rateable.
- (2) The following land is not rateable land—
 - (a) land which is unoccupied and is the property of the Crown or is vested in a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes;
 - (b) any part of land, if that part—
 - (i) is vested in or owned by the Crown, a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes; and
 - (ii) is used exclusively for public or municipal purposes;
 - (c) any part of land, if that part is used exclusively for charitable purposes;
 - (d) land which is vested in or held in trust for any religious body and used exclusively—
 - (i) as a residence of a practising Minister of religion; or
 - (ii) for the education and training of persons to be Ministers of religion; or
 - (iii) for both the purposes in sub-paragraphs (i) and (ii);
 - (e) land which is used exclusively for mining purposes;
 - (f) land held in trust and used exclusively—
 - (i) as a club for or a memorial to persons who performed *service or duty* within the meaning of section 3(1) of the **Veterans Act 2005**; or